

# LOCAL SERVICE TAX (LST)

(ASSESSMENT & PAYMENT) **FEBURARY 2017**

## Governing law:

Local Service Tax is governed by the Local Government (Amendment) No.2 Act 2008—"An act to amend the local Governments Act to provide for additional taxes to be levied, collected and charged by local governments in order to provide new sources of revenue for local Governments and for related purposes". Reference can also be made to practical guide for implementation of Local Hotel and Local Service tax developed by Local Government Finance Commission.

## What is Local Service Tax?

This is a tax levied on salaries, wages and incomes of all persons in gainful employment and its purpose is to raise additional revenue service delivery in the Capital City.

## Why should you pay?

It's a Legal requirement for any person in gainful employment/business to pay Local Service Tax as provided for by the Act CAP 243. The proceeds are to enable and finance provision of services such as maintenance of roads and drainage channels, provision of primary health care, provision and maintenance of traffic lights among others, to promote economic development in the Capital City

## Who is eligible to pay?

### CATEGORIES OF PERSONS ELIGIBLE TO PAY LST

Categories of persons eligible to pay Local Service Tax include the following:

#### (a) Person in gainful employment (with salaries and wages)

**(b) Self-employed and practicing professionals** (medical and veterinary doctors, engineers, accountants, consultants, technicians, lawyers, dentists, pharmacists, architects, scientists, surveyors, valuers, ICT specialists and any other self-employed professionals not mentioned).

**(c) Self-employed artisans** (craftsmen, plumbers, builders, electricians, masons, carpenters, mechanics, blacksmiths, painters, welders, bakers, furniture makers, florists, skilled artisans and any other artisans not mentioned excluding sole petty artisans and "juakalis", who are not fully established and not business entities).

#### (e) Commercial farmers

##### Who is exempted from paying Local Service Tax?

- ❖ Salaries of the following are exempted from the payment of local service tax:
  - (a) Members of the Uganda People's Defense Force.
  - (b) Members of the Uganda Police Force.
  - (c) Members of the Uganda Prisons Service.
  - (d) Members of the Local Defense forces sometimes referred to as LDU's; and
  - (e) Members of the Diplomatic missions accredited to Uganda.
- ❖ The following persons are also exempt from the payment of local service tax.
  - (a) Unemployed persons and peasants.
  - (b) A person engaged in subsistence or occasional economic activities.
  - (c) Petty food vendors.
  - (d) Boarder-Boarder (BODA-BODA) cyclists.
  - (e) Sole petty artisans and juakalis, who are not fully established and are not business entities; and
  - (f) People living in poverty who are unable to earn a minimum income to access basic necessities of life.

**NB:** For the purpose of this regulation, "peasants" include people who produce for their own subsistence and have nothing or very little to sell to the market.

## Past Horrors of Graduated Tax

According to Otafire, anyone who earns at least sh200,000 a month will pay the tax

# What LCs says about the local service tax

By Joshua Kato

DISTRICTS across the country are warming up for the newly-established local service tax and hotel and lodges levies. The tax has been temporarily suspended, as the Ministry of Local Government trains and sensitizes LC5 chiefs on how it will operate.

The local service tax will replace graduated tax, which was scrapped by the Government two years ago because it was retrogressive and barbaric in the nature of its collection. Graduated tax was the leading source of local revenue, especially in rural areas. However, the tax was also scrapped because most of the revenue was being misappropriated.

According to the local leaders, about sh80b was being collected from graduated tax. So when it was scrapped, work, especially at the lower councils, almost came to a stand-still. "Resources from graduated tax were mainly used for funding sub-county activities, for example facilitating regular council meetings and assisting in development work. But when it was scrapped, everything collapsed," says Cassangombe LC3 chairman Edward Musazzi.

For two years, the Government has been giving local governments a graduated tax compensation fund. Sh25b and sh45b



Graduated tax defaulters are taken to the Police station after being arrested by an official (in overcoat)

and who and how it should be collected. Salary earners, through the workers' MP Sam Lyomoki, petitioned the Government, since they are already paying Pay as You Earn, introducing another tax amounts to double taxation. Some people are advocating exemption from the tax.

According to the local govern-

Professional technicians, *jua-kali* artisans and business people are also supposed to pay the tax. But although the other exempted groups are easy to identify, it will be difficult to identify genuine low-income earners.

According to Otafire, farmers with over five acres of land are liable to pay the tax. If a person

than commercial agriculture.

"There are road tolls all over the country that charge us as we take our food to the market. Won't local service tax be a double taxation?" he wonders.

The president of the Uganda National Farmers Federation, Frank Tumwebaze, says the Government should differentiate between commercial and subsis-



Kaberamaido's Engulu



Mukono's Ssenyonya

initiative is good, as it will bring money to the districts. However, we should be careful as we go down to the public to explain it," he says. He argues that the public should not be made to think that graduated tax is coming back under a new name.

"There should be marked differences in the two taxes, otherwise we shall get the same prob-

## How is Local Service Tax computed?

- ❖ Computation and Rates of local service tax in respect of persons in gainful employment and earning a monthly take-home salary.
  - (1) The local service tax on persons in gainful employment and earning a monthly take-home salary shall be levied as follows (See table 1) :-

**Table 1**

Amount of monthly income earned (in shs)		Rate of local service shs) per year
1	Exceeding 100,000/= but not exceeding 200,000/=	5,000
2	Exceeding 200,000/= but not exceeding 300,000/=	10,000
3	Exceeding 300,000/= but not exceeding 400,000/=	20,000
4	Exceeding 400,000/= but not exceeding 500,000/=	30,000
5	Exceeding 500,000/= but not exceeding 600,000/=	40,000
6	Exceeding 600,000/= but not exceeding 700,000/=	60,000
7	Exceeding 700,000/= but not exceeding 800,000/=	70,000
8	Exceeding 800,000/= but not exceeding 900,000/=	80,000
9	Exceeding 900,000/= but not exceeding 1,000,000/=	90,000
10	Exceeding 1,000,000/=	100,000

- (2) In this regulation, “take-home salary” means gross.
- (3) For the avoidance of doubt, all the professionals, technicians, consultants and artisans who are in gainful employment and earn a monthly salary shall pay local service tax according to their monthly salary based on prototype computation as elaborated below:

*Assume that a worker earns UGX 420,000 per month: The LST computation according to the Local Government (Amendment) Act would require that the Income earner be subjected to payment of PAYE first, however, in matters of tax administration, the Income Tax Act supersedes the Local Government Act. This means that LST is a deduction from the gross monthly income of taxpayer as tabulated in the example below.*

**Table 2**

(a)	(b)	(c)
Monthly Salary	LST payable	Available income for national taxation.(PAYE)
420,000	30,000	390,000

### Computation of Local Service Tax for Professionals

The computation of LST for professional is based on 2 bands. The professional who gets monthly income of UGX 1, 000,000 and above pays 100,000 as annual LST and those earning in between UGX 500,000 but not exceeding UGX 1,000,000 pay UGX 50,000 annually as tax. The professionals referred to are Medical and Veterinary Doctors, Engineers, Accountants, Consultants, Technicians, Lawyers, Dentists, Pharmacists, Architects, Scientists, Surveyors, Valuers, ICT specialists and any Other self-employed professionals not mentioned.

Table 3

Professionals	Monthly Income Earned	Annual LST Payable
<i>Doctors, Pharmacists, veterinary doctors, engineers, Accountants, auditors, Consultants, lawyers, architects, artists, journalists, writers, surveyors, planners, scientists,</i>	1,000,000 onwards	100,000
<i>photographers, counselors, dramatists, actors, sportspersons, programmers and any other professional not motioned</i>	Exceeding 500,000 but not exceeding 900,000	50,000

❖ **Computation of Local Service Tax for Artisans:**

The computation of LST for artisans is based on 3 bands. The artisans who gets monthly income of UGX 100,000 and not exceeding 200,000 pays UGX 5,000 as annual LST and those earning in between UGX 200,000 but not exceeding UGX 300,000 pay UGX 10,000 annually as tax and those earning above UGX 300,000 pay UGX 20,000 annually as tax. The artisans referred to are Craftsmen, plumbers, builders, electricians, masons, carpenters, mechanics, blacksmith, painters, welders, bakers, furniture makers, florist, tailors, radio and TV repairers, hairs dressers, semi-skilled artisans and any other artisans not mentioned.

Table 4

Artisans	Monthly Income Earned	Annual LST Payable
<i>Crafts persons, plumbers, builders, electricians, mechanics, black smith,</i>	Exceeding UGX 100,000 but not exceeding UGX 200,000	5,000
<i>painters, welders, bakers, furniture makers, florists, tailors, radio &amp; TV repairers</i>	Exceeding UGX 200,000 but not exceeding UGX 300,000	10,000
<i>hair dressers, semi-skilled artisans and any other not mentioned</i>	Exceeding UGX 300,000 on wards	20,000

❖ **Computation of Local Service Tax for Businessmen/women:**

The computation of Local Service Tax for Business proprietors is in respect of persons or entities who include but may not be limited to the following: owners of shops , fuel stations, restaurants, bars ,furniture workshops, printer workshops; Directors and shareholders of business companies, food vendors ,commission agents, insurance brokers, butchers ,real estate service providers; road construction firms, outside catering service providers, coffee millers , maize millers , fish mongers , timber merchants, garage owners and shoe makers and any other businessmen and women not mentioned, is based on the turnover of the businesses and categorized in 10 (ten) bands as shown in the table 5.

Table 5

BUSINESS MONTHLY TURNOVER (IN SHS)	RATE OF LOCAL SERVICE TAX (IN SHS) PER YEAR.
500,000 but not exceeding 1,000,000/=	5,000/=
Exceeding 1,000,000/= but not exceeding 2,000,000/=	10,000/=
Exceeding 2,000,000/= but not exceeding 3,000,000/=	20,000/=
Exceeding 3,000,000/= but not exceeding 4,000,000/=	30,000/=
Exceeding 4,000,000/= but not exceeding 5,000,000/=	40,000/=
Exceeding 5,000,000/= but not exceeding 6,000,000/=	50,000/=
Exceeding 6,000,000/= but not exceeding 7,000,000/=	60,000/=
Exceeding 7,000,000/= but not exceeding 8,000,000/=	70,000/=
Exceeding 8,000,000/= but not exceeding 9,000,000/=	80,000/=
Exceeding 9,000,000/= but not exceeding 10,000,000/=	90,000/=
Exceeding 10,000,000/=	100,000/=

#### How is Local Service Tax Paid?

- ❖ **Employees earning a salary or wage**- Under this category; the employer will submit a salary schedule with the respective local service tax computation therein to KCCA for assessment. Employers may deduct in 4 equal instalments, the LST payable by an employee.
- ❖ **Professionals, Artisans, businessmen/women**- Assessment is done alongside trading license or by separate assessment by authorized KCCA Officials.

Payment can be made by way of Electronic Funds Transfer (EFT), through a Bank of one's choice on obtaining a Payment Advice Form (PAF) from the Authority Division or one of the established one stop shops and through any of the affiliated mobile telecom pay platforms; Air Tel, MTN, Pay way, Ezzy Money among others.

#### When is the effective date for payment of local service tax?

- ❖ In the first four months of every financial year for employees earning a salary or wage.
- ❖ Once in a financial year for Professionals, Artisans within the first four months.
- ❖ Once every twelve months for Businessmen/women before being issued/together with a trading license.

**Further justification of KCCA's arguments on retention of a number of revenue Charges/ taxes particularly Local Service Tax (LST) and Local Government Hotel Tax (LHT) lies in the following facts:**

- Explanation in the introduction of the LGs Act (Amendment) 2005 where it was expressly stated that LST &LHT were being introduced to bridge the gap created when Graduated Tax (GT) payments had been abolished.
- The unwritten but the most commonly known fact that the new taxes (LST & LHT) are fair, progressive.

*For more inquiries on Trade Licensing, please visit any Division Urban Council Offices-Revenue, Large tax Office at City Hall or any of the one stop shops at Diamond Trust Bank Kampala Road, URSB head office at Georgina House or Tel. 020460000, 0800990000 or eservices@kcca.go.ug*